Testing the Validity of J-Curve by Asymmetric ARDL Approach: the Case of Some Developing Countries

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Abstract

The J-curve approach depending on the time lags connected to former prices and equally exchange rates; indicates that the trade balance exacerbates at first, and then shows the trend of improvement later on. There is a tendency in developing countries to make use of the advantages of lower domestic exchange rates for increasing exports and enhancing economic growth-which often tends to be tempting for the policymakers. The export-enhancing or other versions of trade strategies in emerging economies seem to be convenient when options for development strategies are limited and exchange rate policies pursued would not always produce benefits but also costs are likely to emerge. There have been a sizable amount of empirical work to test the validity of the J-curve approach, but the most of which have failed to provide a substantial support for its validity. The main reason for the failure of these tests was due to the fact that the exchange rates were supposed to have symmetric impact on the trade balance. Nevertheless, that does not reflect true pattern of behaviour since there exists an asymmetric pass through process regarding depreciation and appreciation. In fact; the dealers have varying expectations with respect to depreciation and appreciation. This reality highlights the validity of asymmetric setting. This work is an attempt to test the validity of J-curve for several developing countries by using the recently proposed asymmetric ARDL model.

Keywords: Trade Balance, Exchange Rates, Asymmetric ARDL Approach

JEL Codes: F14, F41, C21

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